2014 Joint HKCPEC-CNCPEC Seminar

Cooperation in the Asia-Pacific Region – Maintaining Stable and Sustainable Growth

The Outlook for SMEs in a Changing Economic Climate

“Opportunities and Challenges for SMEs in a Changing Economic Climate”

Mr Vincent H. S. Lo
Chairman, Shui On Group

• The world has entered a dramatically different and faster development phase into the 21\textsuperscript{th} century shaped by mobile and internet technology. Sweeping cultural, economic and social changes have accompanied this information technology revolution and businesses have to adapt to the rising popularity of on-line trading platforms in order to stay on top of changing consumer purchasing behavior.

• Mobile technology has recently given birth to social media, and despite a relatively brief period since its introduction, has found favor with users at a much faster pace than previous technologies. Its arrival has altered people’s lifestyles while posing threats to traditional business channels, yet there are still huge untapped potentials for products and services creation in a technology-driven world.

Opportunities:

• Businesses and consumers today are closely linked through computers via the Internet in an electronically wired-society. It took 13 years for commercial television to reach 50 million households but it took only 3 years for internet service providers to acquire 50 million users. Facebook hit the 50 million-user mark in just a year while Twitter achieved it in 9 months.
In 2013, China’s e-commerce transactions increased by 42.8% to Rmb1.88 trn, accounting for 8% of national retail consumption. This trend represents robust opportunities for companies to reap technology enhancing breakthroughs, and the market share for e-commerce will still have plenty of room to grow.

In today’s fast changing economic environment, SMEs can significantly shorten the time needed to expand and become profitable. However, to succeed under the dynamic wave of technological change, companies will have to act quickly to avoid missing the boat or being phased out by new technologies.

Companies such as Alibaba and Tencent have risen to capitalize on this trend. Jack Ma’s success can be attributed to his early vision recognizing the commercial value of on-line shopping in the new economy. His foresight and conviction have led to the creation of TaoBao.com in 2003, now the largest on-line shopping website in Asia with over 1 billion users.

In the mobile technology arena, Ma Huateng and his team developed Tencent’s first instant messaging product QQ in 1999. Through on-going innovation Tencent has subsequently added a slew of new functions, which includes Mobile QQ and eventually Weibo - a Twitter-like service which has been a resounding success in China since its inception in 2010.

Both companies have risen to success within a relatively short time period, leveraging on time and cost-savings technology made possible by information technology. The commonalities which underpin their success stories include having a clear vision on the vast potential of the technology-driven world and a capability to rapidly develop and execute their business plans.

Alibaba and Tencent are first-movers in their respective businesses. They have aligned their business strategy to ride with the underlying economic trends, introducing products that serve the
new lifestyle and consumer needs in a fast changing economic environment, bringing value-added propositions to the community they operate in.

**Threats:**

- Technological evolution and rapid changes not only bring about opportunities, but also impose new challenges for businesses. Formerly technology spillovers were much slower, and successful new concepts and ideas can guarantee market-leading positions and high profitability for a relatively long period of time. However, in the new economy, innovative concepts and ideas are often quickly learned and adopted by competitors, and newer ideas and concepts are brewed quickly to redefine competitive advantages.

- The renowned Moore’s law, named after co-founder of Intel Corporation Gordon E. Moore, describes a driving force of technological and social change which predicts that computer chip performance would double every two years. Driven by this law, any companies that design their product to serve today’s need can lose competitive advantage by the time the product gets to the market, so companies should adjust their R&D efforts to design products for the future. In a technology-driven world, while innovative changes bring new opportunities, they also make it harder for entrepreneurs to maintain leading market position and their competitive niches.

- The rise and fall of Nokia is a case in point. Nokia was a market leader and one of the world’s largest mobile phone manufacturers that utilize alloy and nano-technology to produce slim, lightweight product at low prices. Once an immensely successful company in the mobile phone industry, the company has grown less responsive to the market, under-investing in new generation of smartphones compared to its competitors Apple and Samsung. As a consequence, Nokia failed to retain its market leadership position when Steve Jobs walked onto a stage and pulled an iPhone out of
his pocket in January 2007, changing the competitive landscape altogether to the detriment of Nokia.

- Technology is thus a two-edged sword. Companies will get eliminated if they cannot sustain innovation and keep up with the rapid pace of change. In the new economy, visions and new concepts are often short-lived. It is worth noting that there are over 40,000 new start-up firms coming into existence every year in the Silicon Valley, but over 75% of the startups fail and disappear in the process of creative destruction.

- In the business arena, there is a compelling need for constant innovation otherwise companies will risk being overtaken by their competitors. Successful companies will need the capability to execute and implement at a very fast pace as others can catch up rapidly to unsettle the status quo. When Facebook first started, there were dozens of other social networks going after the same opportunity, but in the end Facebook won. Why? The reason is because ideas are not unique and can easily be copied. What matters is making them happen. As Mark Zuckerberg once remarked "If you had invented Facebook, you would have invented Facebook." “Ideas are a dime a dozen--it's all about execution. Don't waste time congratulating yourself for having a good idea. Just go make it happen.”

- An important lesson for SMEs is thus, while having a clear vision and a good business plan are the prerequisites, it would still take strong execution to become successful. When Nokia’s stock price peaked at US$60 in 2001, the company was well aware of the competition going on around them. Nokia was not short of leading-edge technology or clever marketers, but it struggled in commercializing its smartphone products primarily due to ineffective execution. The company lacked the capacity to adapt to the changing market environment in a decisive manner. Failure to execute is a common threat encountered by corporations in all industries, and in the case of Nokia, the company ended its glory in
2013 when the former global mobile communications giant was acquired by Microsoft for US$7.2 bn.

Appendix

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<thead>
<tr>
<th>Company</th>
<th>Year of Establishment</th>
<th>Market Capitalisation in US dollar as of Jun. 20, 2014</th>
<th>Listed at</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft</td>
<td>1975</td>
<td>$345B</td>
<td>NASDAQ</td>
</tr>
<tr>
<td>GE</td>
<td>1892</td>
<td>$270B</td>
<td>NYSE</td>
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<tr>
<td>GM</td>
<td>1908</td>
<td>$58B</td>
<td>NYSE</td>
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